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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000141

SIPDIS

SCA/CEN; EEB
PLEASE PASS TO USTDA DAN STEIN
ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR PAUL HUEPER

E.O. 12958: DECL: 01/28/2019
TAGS: [PGOV](#) [EINV](#) [ETRD](#) [EPET](#) [ECON](#) [TX](#) [AJ](#)
SUBJECT: TURKMENISTAN: LOGISTICS COMPANY MANAGER DESCRIBES
CASPIAN DEVELOPMENTS, TURKMEN-AZERI TRADE ISSUE

REF: ASHGABAT 82

Classified By: Charge Richard Miles, reasons 1.4 (b) and (d).

11. (C) SUMMARY: GAC Marine's General Manager, a longtime resident with connections to some foreign energy companies operating in Turkmenistan, described his company's progress with business development and commented on a recent agreement with the government to build a new supply base near Turkmenbashi. He also discussed the status of some of the other hydrocarbon sector development going on in the Caspian. He opined that the Turkmenistan-Azerbaijan relationship would most likely move forward if the Turkmen removed some bureaucratic barriers to Trans-Caspian trade, but thought barriers like the visa regime will be difficult to ease. END SUMMARY.

12. (C) Poloff met with GAC Marine General Manager, Gregory Flint, on January 27 to get updated on the downstream maritime support and logistics company's activities in and around the Caspian. The company is currently trying to expand its activities in Turkmenistan in order to provide customers with integrated services that will include support from vessels, construction and materials support, and other types of services.

BUSINESS DEVELOPMENT GOING WELL

13. (C) Flint was especially pleased to show off the plans for a new support base on the Caspian coast south of Turkmenbashi that the government had just approved and stamped. The base will be located next to the site of Petronas' planned gas processing facility. GAC's contract with the government for the base included a 12-year lease on the land, to begin one year after construction is completed. Approval for construction of the base, which will have warehouse and other support facilities as well as docks, took Flint five years to obtain. He opined that the project got approved primarily because of his persistent petitions to

senior officials in the River and Maritime Administration. One significant change to the original proposal, however, was the government's insistence that a government tender be issued for the construction of the base. Flint said that although GAC had wanted to handle the construction on its own, Turkmenbashi port officials with whom he maintains contact assured him that they would look out for GAC's interests when they have a chance to review the tender offers.

¶4. (C) The Turkmenbashi base will improve GAC's capacity to provide services in the coastal area. Although the company has a similar support base near Hazar, the new base will be more conveniently located near the main port facilities and close to the city of Turkmenbashi, where housing for employees will be easier to obtain. To sweeten the deal, GAC offered to build a training facility on the base, and when training company representatives come in February, GAC will be arranging meetings with River and Maritime Administration officials to pitch the idea.

PETRONAS TURNING ATTENTION TO GAS

¶5. (C) Turning to the activities of other energy players, Flint said that with the global price of oil so unstable, many of the energy companies are now devoting more attention to moving and processing offshore gas, which had previously been flared off. As a subcontractor to Malaysian production sharing agreement (PSA) holder Petronas, GAC plans to provide supply chain and marine shipping services in support of Petronas' imminent construction in Block I of a production

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platform, three satellite platforms, and a gas pipeline that will extend to the company's planned onshore processing facility. He commented that Petronas, which has spent over \$1 billion in capital investment here since winning the PSA, has suffered from the instability of world oil prices. The company's deal with Turkmenistan -- to give the Turkmen government every fourth tanker full of crude oil -- has not been profitable enough to protect them from market stresses. Nevertheless, Petronas has begun building a second mobile drilling platform for extracting oil. As an aside, Flint claimed that the Petronas National Corporation is the only national entity in Malaysia whose operations and financial affairs are not transparent, due to the fact that its profits are controlled by the Prime Minister's office.

ON BURIED HILL AND AZERBAIJAN

¶6. (C) GAC has an agreement with Buried Hill Energy to provide a variety of services when that PSA holder is ready to initiate drilling at Serdar in the contested Block III. Flint said that Buried Hill representatives told him that drilling planned for early this year had been delayed until the end of the year because of the unresolved maritime border issue between Azerbaijan and Turkmenistan. (NOTE: Buried Hill General Manager, Eldar Iskanderov, told poloff less than two weeks earlier that the delay was caused by the instability of world oil prices, and made no mention of political issues. (reftel) END NOTE.) Flint said he believed that Azerbaijan and Turkmenistan regularly discussed the potential for joint exploration and development of contested areas in the Caspian. He opined that the single biggest hindrance to agreeing on joint work was the two countries' inability to agree on a bilateral marine trade agreement, which is in turn held up by Turkmenistan's stringent visa requirements. Turkmen visa requirements prevent the efficient movement into and out of Turkmenistan of Azerbaijani crews, and this single issue complicates marine trade activity across the Caspian. Flint expressed mild shock that the Turkmen government so valued its control over access to the country by ship crews that it was willing to hold back the development of Trans-Caspian shipping.

¶7. (C) COMMENT: GAC's success in landing an agreement for a new supply base demonstrates that the company has a good

relationship with the Turkmen government, but the company has also worked long and hard to establish that relationship. Flint's opinion that a bilateral maritime trade agreement would open the doors to further bilateral cooperation between Azerbaijan and Turkmenistan is intriguing, although no doubt only part of the story. There is, however, little doubt that persuading the Turkmen to ease their visa rules will continue to be a challenge. Flint's comments highlight the difficulties faced even by foreign companies working in the oil and gas sector in the Caspian, an area that is a development priority for the Turkmen government and one where foreign partners are welcome. END COMMENT.

MILES